



Testimony before the United States Department of Agriculture
Agricultural Marketing Service

In the Matter of Milk in California;
Notice of Hearing on a Proposal to Establish a Federal Milk Marketing Order

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My name is Annie AcMoody. I am the Director of Economic Analysis for Western United Dairymen (WUD). We are an association of dairy farmers, representing California's dairy families. We have members located throughout the entire state, from San Diego county all the way through Del Norte county. We also represent members of all sizes (ranging from 17 cows to 10,000 cows), organic and conventional.

Western United Dairymen was established in 1985 as a result of the merger between two organizations with roots in the 30's: United Dairymen and Western Dairymen. Through the 1960's, the California dairy industry pricing system was changing. Western was a key player in the development of the pooling program.

Today, WUD's membership benefits cover many areas. They include resources in labor law, safety, animal welfare, environmental regulations, legislative issues, communications, media relations and pricing issues. We also provide educational resources, through seminars, workshops, written materials, social media and our website. Specifically, we have four field representatives throughout the state ready to assist members when needed. We are represented in Sacramento and Washington DC to ensure laws and policies potentially impacting our membership are monitored and acted upon promptly and efficiently. On the environmental front, WUD advocates for its members with local, regional, state and federal environmental agencies (air and water quality, climate change issues) to ensure that regulations that are developed by these agencies take the concerns of our members into account. WUD also works with its members to help them understand the regulations and make sure they get fair treatment by the regulators.

We are a grass-roots organization and an elected board of 20 directors governs our policy. They meet once a month to discuss issues that affect our membership. Specifically, our mission states: "in appreciation of the tremendous dedication of capital, labor and caring concern that our members have invested in their dairies, the Board of Directors will earnestly and conscientiously work to promote sound legislative and administrative policies and programs for the profitability of the industry and the welfare of the consumers by

striving always to develop concepts for the general welfare and longevity of dairy producers, while maintaining the strong, positive public image of the dairy farmers.”

We are here today because our members’ farms are confronted with disorderly marketing conditions, which threatens their viability in the state. Since the Gonsalves Milk Pooling Act was implemented in 1969, the California Department of Food and Agriculture (CDFA) has administered a state milk marketing order and has tried to balance industry interests. In recent years however, California’s minimum prices have failed to reflect national values for classified milk uses. This has led to increasingly difficult market conditions for dairy farms operating in California.

The unity we have seen in the California producers’ community in the last few years is testimony to the undeniable disruption caused to California dairy families and their employees by the inequity in California’s milk pricing compared to the price discovery mechanism in states operating under the federal system.

More specifically, with the fixed whey factor implemented on December 1, 2007, it was only a matter of time before prices would fall significantly out of alignment with federal order pricing. The issue became particularly apparent in 2011 as the value of dry whey started to rise. The producer community, concerned with the inequity, overwhelmingly supported some changes. Land O’Lakes submitted a petition on May 24, 2011. Agreeing the issue should be revisited, CDFA called for a hearing on June 30, 2011. Support from dairy producer organizations and cooperatives was unparalleled – all sought changes that would bring the California 4b price in closer alignment with federal order prices. As a result of the hearing, CDFA decided to implement changes, eliminating the fixed whey factor and replacing it with a sliding scale.

The changes resulting from the June 30, 2011 hearing and implemented on September 1, 2011 were an improvement for producers: the whey value was now allowed to fluctuate. However, while WUD appreciated the modification, we believed it still fell short of an appropriate method to determine the whey value in the Class 4b formula. Hence, WUD submitted a petition to CDFA on December 2, 2011, proposing to modify the current sliding scale in the Class 4b formula to allow the whey factor to more closely reflect the whey value generated by the current Class III formula. At the time, the difference between California’s whey value and federal orders since the sliding scale’s implementation averaged a staggering \$1.88/cwt. California dairy families clearly needed a better way to capture the whey value. Unfortunately, CDFA decided not to act on the matter and denied the hearing request.

The last (non-temporary) update to the whey scale occurred in 2012, when CDFA Secretary Karen Ross increased the upper end of the scale by 10 cents (effective August 1). Following this decision, she created the Dairy Future Task Force in the hopes of finding common

ground between industry participants to improve the California pricing system. Almost three years later, no significant changes occurred and producers were still getting a Class 4b price that does not track FMMO Class III.

In 2013, producers supported legislation (AB 31), that would have tied the whey value in the Class 4b formula to the whey value in the Class III formula. That legislation did not pass despite strong unity in the producer community.

Every producer group in this state has worked hard on getting this issue resolved. The last hearing (June 3, 2015) was called by Secretary Ross on her own motion to provide temporary relief to producers. The changes resulting from this hearing will expire next summer. While we appreciated the Secretary's efforts, the changes made are temporary. California dairy producers need a permanent solution to the unfair prices they are receiving. This is at the root of why we are here today.

In parallel to the efforts spent at the state, an interest in exploring the potential for a California FMMO started growing in the producer community. Many informational materials were shared through newsletters and presentations were done throughout the state. WUD specifically hosted a panel in 2012 and 2014 and a presentation in 2015, where USDA and coop staff explained to members the hearing process and how FMMOs operate. WUD board members particularly spent time trying to understand the differences between the FMMO and the California system. At that time, it was common knowledge the coops had started to work on developing a proposal for a California FMMO. Until that was made official and content was made public, WUD did not take a position.

After the three major coops in the state submitted a proposal to USDA in February 2015, the WUD board of directors unanimously voted to support it at the February 20, 2015 board meeting. This proposal was the culmination of a lengthy process at CDFA, where the industry determined that a FMMO was necessary to remedy the aforementioned inequalities caused by the California system.

In short, this proposal means to our organization a solution to a problem that the CDFA Secretary has not been able to fix. As mentioned previously, it is no secret that the current producer dissatisfaction stems largely from the growing gap that exists between the Class III price and the Class 4b price. The part of the California Food and Agricultural Code that states "the methods or formulas shall be reasonably calculated to result in prices that are in a reasonable and sound economic relationship with the national value of manufactured milk products" (Section 62062) has been mentioned countless times in the last five years.

For the last twelve months of data before the latest temporary change came into effect, the Class 4b whey value averaged \$1.50 per hundredweight less than the FMMO Class III whey value (August 2014-July 2015). When commodity prices were higher, that difference was

even more striking, with Class 4b whey value being an average \$2.03 per hundredweight lower than Class III in 2014. Class 4b represents the largest class of milk in California by utilization. According to data published by CDFA for this hearing (Summary of Pool Usage Percentage), Class 4b represented an average 42% of the SNF pool usage and 47% of the fat pool usage in 2015. Looking back at the last ten years, it represented 41% and 46% (for SNF and fat pool usage, respectively).

The class price difference places the California dairy operations in a much less competitive position than their counterparts whose milk are priced by FMMO regulations. This means that the two systems yield different regulated minimum prices for products competing in like markets. The resulting differences in prices may cause market decisions that are based on regulations rather than market fundamentals. This is clearly a concern and a sign of disorderly market conditions. For California dairy families to receive milk prices on parity with the rest of the country, the proposal submitted by the three coops (Proposal 1) is our best option.

According to USDA's *Preliminary Regulatory Impact Analysis of Proposals to Establish a California Federal Milk Marketing Order*, the impact on California dairy producers would be significant. Indeed, the analysis points to average increased revenues of \$700 million per year for the first seven years of implementation. On the first year alone (2017), USDA estimates increased producer revenues at \$590 million. Producers in California deserve to be on a level playing field with their counterparts in the rest of the country.